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CLEARING-HOUSE CERTIFICATES AND THE NEED FOR A CENTRAL BANK

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It is universally conceded that the present time is highly favorable for financial reforms. The great danger is that the remedies will be so numerous, and the diagnoses so different that the patient will linger and suffer. The doctors will assemble and discuss, but, I hope, to use an old story, we shall not have to wait for the autopsy to find out what is the matter. The brief contribution that I shall make towards the solution of the riddle of American finance is based on my life as a banker in the City of New York, and what I have learned in my relations with the New York Clearing House.

When I read the numberless projects for our financial well being that fill the newspapers, our book shelves, and the Congressional Record, I ask myself on what do these men base their plans, on observation or actual contact and familiarity with the subject they talk about, and I must conclude that much of it is spun out of their inner consciences. The best known of our Revolutionary orators said, "I have but one lamp by which my feet are guided, and that lamp is experience," and I propose to use experience in the space at my disposal.

When I was a youth I saw the panic of 1857. The failure of the Ohio Life and Trust Company created a general distrust of banks all over the country. It began as always in New York. Good and bad banks alike were attacked by uneasy depositors and they were fought to a standstill and compelled to surrender. The situation, however, soon righted itself because the depositor had no safe place to keep his gold and soon returned it to the bank he had been distrusting. We had not at that time that ingenious device known as the safe deposit vault by which banks and trust companies now connive at their own decimation.

The Civil War was marked by no less than four banking and currency crises, in 1860 and 1861 when the war broke out, and in 1863 and 1864 when the unwonted demand by the government

and the creation of a new currency, threw the machine out of gear. To remedy these derangements the most useful and effective device ever known in our finances was created. I mean the loan certificate of the New York Clearing House. It was invoked four times during the war. In 1860 we issued \$7,357,000; in 1861, \$22,585,000; in 1863, \$11,471,000 and in 1864, \$17,725,000; in all about \$58,000,000, which was an immense sum for those days. These certificates played an important part in the war for the Union. While the banks and the people were subscribing for bonds with an uncalculating patriotism, the clearing house stepped in with the loan certificate and steadied the business situation by enlarging credit and preventing the panics that always follow excesses of any kind in the commercial world. The effect of the loan certificate is instantaneous. Credit is expanded upon the soundest basis known to experienced financiers and the sufficiency of that basis and the volume of the supply is regulated by bankers and men of business whose character and antecedents are the strongest guarantees of the honest and wise administration of the trust.

You are all familiar with the basis of the loan certificate, yet a short re-statement may not be amiss. Every bank in the clearing house has the privilege of coming to the loan committee with its bonds, loans and commercial paper and obtaining seventy-five per cent of their value in loan certificates of all denominations with which they can pay their debts to each other. They naturally bring their very best assets, so that in our experience in New York not a single dollar of loss has ever followed our many issues. Again, quite naturally, the banks are desirous of getting back their gilt-edged assets, and the process of redemption and retirement begins almost as soon as that of issue. The practical part of this expansion is very interesting. The loan committee can issue many millions in a single morning. There is no necessity of waiting for a slow press to print the circulation. We, in New York, make them in denominations of \$5,000, \$10,000, \$20,000, \$50,000 and \$100,000. We have not yet come to \$5 and \$10, but the present crisis has shown the need and desirability of such small notes.

After the war there ensued a season of speculation and development, stimulated and fostered by the currency created for the needs of the government and the people during the rebellion.

This lasted till 1873, when the inevitable reaction came, resulting in that famous panic. Here the clearing house hesitated a day or two before issuing certificates, and a hesitation even of that time is a very serious matter. When a house is on fire you do not want to walk your horses before the engine. In 1873 we issued \$22,400,000, and the time between their first issue and their final retirement was about four months. Then for eleven years there was no occasion for their use, until the Marine and Metropolitan Bank panic in 1884, when about \$25,000,000 were put out and again four months was the limit of their existence.

In 1890 we felt the effects of the Baring panic and issued sixteen millions, and in three months they were all retired. You remember that in England in the Baring panic the joint-stock banks, under the guidance of the Bank of England, substantially adopted our loan-certificate system for their own relief. In 1893 the certificate performed its most useful and brilliant service. We had a crisis of great and varying elements. The silver question and the end of a long period of commercial extravagances conspired to produce an emergency that none of us will ever forget. The New York Clearing House acted with superb energy and promptness. We issued more than ever before, \$41,500,000 in certificates were signed. Their issue began June 21, 1893, and the last one was cancelled November 1, 1893—again a period of about four months. In 1895, when the Venezuelan message was issued, the clearing house forestalled and prevented a panic by authorizing the usual issue, but the very promptness of their action prevented the use of any of them by the banks.

Now we are in 1907, and the same agency is at work, and you all realize how effective it has been to still the waters, so we can shift the cargo and repair the ship for its further voyage. When the history of 1907 comes to be written it will be a very interesting and instructive chapter on finance. It is very well known that there was a well meaning but injudicious attempt to handle the situation without resorting to the time-honored remedy. The clearing house delayed their issue several days out of respect to the very distinguished gentlemen who hoped to get along without their use, but finally the pressure of events left no alternative. I believe that much was lost in the few days of hesitation that preceded the actual authorization of the issue, and that

a more prompt action would have warded off some of the subsequent occurrences that we have had to deal with. Why there should have been any hesitation in using a remedy so long and so often tested I have not yet been able to discover. It has again taken its place as a great corrective and conservator—and to its use we owe the subsidence of the more active features of the panic. Excessive and alarming rates for money immediately disappeared, and the banks were able to extend credits to their customers—knowing that the source of supply was at their command.

This is the history of this great financial agent. It has been used eight times in the past half century always with relief instantaneous, without loss, and with a period of existence from the first one put in circulation to the last one retired of about four months. As an emergency currency it is incomparable—as an asset currency it is the only one that I can conceive of, that is not fraught with dangers, greatly in excess of the benefits to be derived from it. The secret of the whole matter lies in the character of the men who have managed it. I know of no more unselfish, devoted and patriotic body of men than the Clearing House Committee of New York City. It has always been so, it is so to-day. The business public have unlimited confidence in their judgment and wisdom. The clearing-house certificate is the embodiment of all these qualities and constitutes it as the most absolutely valuable of all our financial devices.

Naturally the whole country follows New York. It is not vainglory to say so—it is a fact. The clearing houses of all important and unimportant cities follow its lead. The panic is arrested—credit is assured—the dangers of extreme distress are eliminated, and the country finds time to readjust, repair and resume.

Now, in view of this practical lesson, so often repeated, and always successful, what should be done, and what do we learn. The first lesson is, that expansion of credit and the issue of currency can best be done by some central responsible power and not by a series of small powers scattered all over the country. The first process gives confidence, the second will be followed by no confidence. I do not hesitate to say that an asset currency authorized on a forty per cent or any per cent basis and intrusted to five thousand banks all over the country will surely result

in a cataclysm of disaster, unparalleled in the history of the country. On the other hand, if we organize in a permanent form the clearing-house loan certificate now issued so fitfully and at a time when a crisis is already upon us, we will provide the country in advance with a remedy, just as the New York Clearing House prevented a panic in 1895.

But how shall we get this permanent form? To answer this we come up against the most venerable and senseless prejudice that obstructs the national well being, the dread of a great central bank. This hobgoblin of the politician and the business man has walked the earth for seventy years. The panic of 1837 has not yet been forgotten although the country is radically different from that day. We must kill this bugaboo and exorcise this ghost.

The average politician is more afraid of it than any other public question except the tariff. The magnetic needle does not point more unerringly to the pole, than the clearing-house certificate points to a great central bank, and dodge this as we may, and as we probably shall, finally we will come back to it and hail it as the solution of all our difficulties. But such a bank must be organized properly or it will never gain public confidence. The government must be represented in it, but the dominant power must reside in a board of directors to which the most eminent bankers and business men shall be chosen. Let the clearing houses of the great central reserve cities nominate those directors and you will have a governing body as influential and as respected as the Supreme Court of the United States.

Give us in good faith such a central bank with such management and with such functions as the clearing houses all over the country have to-day, and you will put us on a par with England and France and Germany with their great benign national banks. To-day we are suffering for lack of such a consolidated, salient power. Our energies are scattered and inharmonious. They ought to be solidified and present an unbroken front. The clearing houses and the loan certificate point the way with an unmoving finger, and until their persistent and insistent demand is heeded and crystallized, we shall not have permanent peace in our business or financial world.

It is hardly necessary to say that political or partisan features
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in such a bank will be fatal. To give it authority and respect it must be divorced from party politics. Its creation on the basis I have outlined will be a work of patriotism as signal as any we have ever performed as a people. I believe that the necessities of the hour, necessities that recur with every monetary disturbance, will dictate a sound solution, and, without doubt, this conference and others like it will be important steps to that end.